

Town of Stockton

**Financial Statements
With Auditors' Report Thereon
For the Year Ended June 30, 2006**

**Ulrich & Associates, PC
Certified Public Accountants
Ogden, Utah**

Town of Stockton

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Ulrich & Associates, PC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the Town Council
Town of Stockton
Stockton, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the Town of Stockton, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the Town's primary government as listed in the table of contents. These financial statements are the responsibility of the Town of Stockton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Stockton's as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2007 on our consideration of Town of Stockton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ulrich & Associates, P.C.

January 9, 2007

Town of Stockton
Management's Discussion and Analysis
June 30, 2006

As management of the Town of Stockton, we offer readers of the Town of Stockton's financial statements this narrative overview and analysis of the financial activities of the Town of Stockton's for the fiscal year ended June 30, 2006.

Financial Highlights

The total net assets of \$1,413,545 is made up of \$1,477,618 in capital assets less related debt of \$222,375, and other net assets of \$158,302.

In the Business-type Funds, expenditures exceeded revenues by \$456. This includes a non-cash charge for depreciation of \$58,728.

Total long-term liabilities of the Town were reduced by \$20,288.

The Town increased its short term debt by voting against bonding for a sewer system. This resulted in a repayment amount to the State of Utah in the amount of \$238,210. The town has yet to repay this amount. It is hopeful that a repayment schedule can be worked out to pay over a period of years.

Reporting the Town as a Whole

This discussion and analysis is intended to serve as an introduction to the Town of Stockton's basic financial statements. The Town of Stockton's basic financial statements comprise three components 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also include other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Stockton's finances, in a manner similar to a private-sector business.

The statements of net assets presents information on all of the Town of Stockton's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Stockton is improving or deteriorating. However, you will also need to consider other nonfinancial factors.

The statement of activities presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Town of Stockton
Management's Discussion and Analysis
June 30, 2006

Both of the government-wide financial statements distinguish functions of the Town of Stockton that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages directly following this management discussion and analysis.

Reporting the Town's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Stockton also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general governmental operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the general fund and drug task force special revenue fund.

Proprietary funds - The Town of Stockton maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Stockton uses enterprise funds to account for its water utility and solid waste.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

Town of Stockton

Management's Discussion and Analysis

June 30, 2006

Government-wide Financial Analysis

Net assets, over time, are intended to serve as an indicator of a government's financial position. In the case of the Town of Stockton, assets exceeded liabilities by \$1,413,545, a decrease of \$254,114 over the prior year. This decrease due in part to the departure of the drug task force special revenue fund. By far, the largest portion of the Town of Stockton's net assets is its investment in capital assets (e.g., land, buildings, machinery and equipment, etc). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
<u>Assets</u>	2006	2005	2006	2005
Current and other assets	\$ 223,825	216,955	197,108	191,635
Capital assets	462,029	498,567	1,015,589	1,034,007
Total assets	685,854	715,522	1,212,697	1,225,642
<u>Liabilities</u>				
Long-term debt outstanding	3,930	10,516	232,201	246,162
Other liabilities	245,440	248,412	3,435	1,963
Total liabilities	249,370	258,928	235,636	248,125
<u>Net Assets</u>				
Invested in capital assets, net of debt	458,099	488,051	797,144	801,775
Restricted	102,799	104,320	122,750	122,751
Unrestricted	(124,414)	(135,777)	57,167	52,991
Total net assets	\$ 436,484	456,594	977,061	977,517

Town of Stockton
Management's Discussion and Analysis
June 30, 2006

Changes in Net Assets

	Governmental Activities 2006	Business- Type Activities 2006
<u>Revenues</u>		
Program revenues		
Charges for services	\$ 39,061	162,123
Operating grants & contributions	82,474	-
General revenues		
Property taxes	48,233	-
Other taxes	89,747	-
Interest income	5,925	7,119
Miscellaneous	2,150	-
Total revenues	<u>267,590</u>	<u>169,242</u>
<u>Expenses</u>		
General government	92,409	-
Public safety	128,821	-
Highways/public improvements	34,468	-
Parks & recreation	11,575	-
Other	349	-
Water & waste collection	-	169,698
Total expenses	<u>267,622</u>	<u>169,698</u>
Loss on disposal of capital asset	<u>(20,078)</u>	<u>-</u>
Increase (decrease) in net assets	(20,110)	(456)
Net assets, beginning of year	<u>456,594</u>	<u>977,517</u>
Net assets, end of year	<u><u>\$ 436,484</u></u>	<u><u>977,061</u></u>

Town of Stockton
Management's Discussion and Analysis
June 30, 2006

Financial Analysis of Government's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements.

As of June 30, 2006, the Town's General Fund reported a fund balance of \$171,886. This represents an increase of \$8,726 (1.05%) more than last year's ending balances.

The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Grants and contributions were the largest source of revenue in the General Fund and represent 30.8% of total general fund revenues.

The Town maintains two enterprise funds to account for the business-type activities of the Town. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Significant changes in business-type activities include a \$13,787 decrease in debt due to regular principal payments .

General Fund Budgetary Highlights

During the fiscal year the General Fund original budget was amended from an original budget expenditure total of \$242,403 to a final budget of \$259,403 (7.01%). This increase was due largely to anticipated increases in public safety expenditures.

Capital Asset and Debt Administration

Capital assets - The Town of Stockton's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$214,333 of land, construction in process of \$39,000, \$204,091 of buildings, \$80,208 of improvements, \$718,723 of water mains and distribution system and \$221,263 of machinery and equipment. The total increase in the Town's investment in capital assets increase 3.59%.

Major capital asset events during the current fiscal year included the following:

\$27,878 Machinery and equipment in the general fund for police equipment.

\$1,310 Machinery and equipment in the water fund.

\$39,000 Construction in process in the water fund.

Town of Stockton
Management's Discussion and Analysis
June 30, 2006

Town of Stockton's Capital Assets

	Governmental Activities 2006	Business- Type Activities 2006
Land	\$ 106,495	107,838
Construction in process	-	39,000
Buildings	271,868	40,632
Improvements	157,383	-
Distribution mains and reservoir	-	1,695,638
Machinery and equipment	257,400	230,966
Less: accumulated depreciation	<u>(331,117)</u>	<u>(1,098,485)</u>
Total	<u>\$ 462,029</u>	<u>1,015,589</u>

Additional information on the Town's capital assets can be found in the footnotes of this report.

Long-term Debt

At June 30, 2006, the Town had no bonded debt outstanding. The debt of the Town is secured solely by specific revenue sources (i.e., revenue bonds).

Town of Stockton's Long-Term Debt

	Governmental Activities 2006	Business- Type Activities 2006
Water revenue bonds	\$ -	82,345
Capital lease payable	3,930	136,100
	<u>\$ 3,930</u>	<u>218,445</u>

The Town's total debt decreased by \$20,288 during the fiscal year.

Additional information on the outstanding debt obligations of the Town can be found in the footnotes to this report.

BASIC FINANCIAL STATEMENTS

Town of Stockton
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 28,849	42,611	71,460
Accounts receivable - net	71,457	17,947	89,404
Prepaid expenditures	20,720	-	20,720
Restricted assets			
Cash & cash equivalents	102,799	122,750	225,549
Water stock	-	13,800	13,800
Capital assets (net of accumulated depreciation)			
Land	106,495	107,838	214,333
Construction in process	-	39,000	39,000
Buildings	194,089	10,002	204,091
Improvements	80,208	-	80,208
Water mains and distribution	-	718,723	718,723
Machinery and equipment	81,237	140,026	221,263
Total assets	685,854	1,212,697	1,898,551
<u>Liabilities</u>			
Accounts payable and accrued liabilities	2,477	3,435	5,912
Landscape escrow	4,668	-	4,668
Customer deposits	-	13,756	13,756
Short-term note payable	238,295	-	238,295
Capital lease payable - current	3,930	9,136	13,066
Revenue bond payable - current	-	5,027	5,027
Capital lease payable - noncurrent	-	126,964	126,964
Revenue bond payable - noncurrent	-	77,318	77,318
Total liabilities	249,370	235,636	485,006
<u>Net Assets</u>			
Invested in capital assets, net of related debt	458,099	797,144	1,255,243
Restricted for capital improvements	62,294	103,750	166,044
Restricted for debt	-	19,000	19,000
Restricted for roads	40,505	-	40,505
Unrestricted	(124,414)	57,167	(67,247)
Total net assets	\$ 436,484	977,061	1,413,545

The notes to the financial statements are an integral part of this statement.

Town of Stockton

Statement of Activities

For the Year Ended June 30, 2006

Function/Programs Primary government	Net (Expense) Revenue & Changes in Net Assets				
	Program Revenues		Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 92,409	17,917	-	-	(74,492)
Public safety	128,821	21,144	48,961	-	(58,716)
Highways and public improvements	34,468	-	33,513	-	(955)
Parks and recreation	11,575	-	-	-	(11,575)
Interest	349	-	-	-	(349)
Total governmental activities	267,622	39,061	82,474	-	(146,087)
Business-type activities					
Water utility	130,051	123,658	-	-	(6,393)
Solid waste	39,647	38,465	-	-	(1,182)
Total business-type activities	169,698	162,123	-	-	(7,575)
Total primary government	\$ 437,320	201,184	82,474	-	(153,662)
General revenues					
Property taxes					48,233
General sales and use tax					51,221
Franchise tax					22,735
Fees in lieu					15,791
Interest earnings					7,119
Miscellaneous					2,150
Loss on transfer of capital assets					(20,078)
Total general revenues					133,096
Change in net assets					(456)
Net assets - beginning					977,517
Net assets - ending					977,061

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Special Revenue	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 28,849	-	28,849
Receivables (net)			
Taxes	59,635	-	59,635
Intergovernmental	7,018	-	7,018
Other	4,804	-	4,804
Prepaid expenditures	20,720	-	20,720
Restricted cash & cash equivalents	102,799		102,799
	<u>223,825</u>	<u>-</u>	<u>223,825</u>
Total assets	<u>\$ 223,825</u>	<u>-</u>	<u>223,825</u>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ 2,477	-	2,477
Due to other funds	-	-	-
Landscape escrow	4,668	-	4,668
Deferred revenue	44,794	-	44,794
	<u>51,939</u>	<u>-</u>	<u>51,939</u>
Total liabilities	<u>51,939</u>	<u>-</u>	<u>51,939</u>
<u>Fund balances</u>			
Reserved for:			
Capital improvements	62,294	-	62,294
Roads	40,505	-	40,505
Unreserved, reported in			
General	69,087	-	69,087
Special revenue	-	-	-
	<u>171,886</u>	<u>-</u>	<u>171,886</u>
Total fund balances	<u>171,886</u>	<u>-</u>	<u>171,886</u>
Total liabilities and fund balances	<u>\$ 223,825</u>	<u>-</u>	<u>223,825</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Balance Sheet Reconciliation to Statement of Net Assets
June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental fund types:	\$ 171,886
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$793,146 and the accumulated depreciation is \$331,117.	462,029
Property tax revenue is recognized when earned (claim to resources established) rather than when "available." The deferred property tax is not available.	44,794
Short term note payable is not due in the current period and therefore not reported in the funds.	(238,295)
Capital lease is not due and payable in the current period and therefore are not reported in the funds.	(3,930)
Net assets of government activities	<u>\$ 436,484</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Special Revenue	Total Governmental Funds
<u>Revenues</u>			
Taxes	\$ 137,987	-	137,987
Licenses and permits	17,917	-	17,917
Intergovernmental	82,474	-	82,474
Fines and forfeitures	21,144	-	21,144
Interest	5,925	-	5,925
Miscellaneous revenue	2,150	-	2,150
	<hr/>	<hr/>	<hr/>
Total revenues	267,597	-	267,597
	<hr/>	<hr/>	<hr/>
<u>Expenditures</u>			
Current			
General government	73,306	-	73,306
Public safety	121,079	-	121,079
Highways and public works	34,468	-	34,468
Parks and recreation	11,463	-	11,463
Debt service			
Principle payment	6,501	-	6,501
Interest	349	-	349
Capital outlay	10,497	-	10,497
	<hr/>	<hr/>	<hr/>
Total expenditures	257,663	-	257,663
	<hr/>	<hr/>	<hr/>
Excess revenues over (under) expenditures	9,934	-	9,934
	<hr/>	<hr/>	<hr/>
<u>Other Financing Sources (Uses)</u>			
Transfers in	-	1,208	1,208
Transfers (out)	(1,208)	-	(1,208)
	<hr/>	<hr/>	<hr/>
Total other financing sources and (uses)	(1,208)	1,208	-
	<hr/>	<hr/>	<hr/>
Net change in fund balances	8,726	1,208	9,934
	<hr/>	<hr/>	<hr/>
Fund balances - beginning of year	163,160	(1,208)	161,952
	<hr/>	<hr/>	<hr/>
Fund balances - end of year	\$ 171,886	-	171,886
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Changes Reconciliation to Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 9,934
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 27,878	
Depreciation expense	<u>(44,338)</u>	(16,460)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(20,078)
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The governmental funds report repayment of capital lease as an expenditure, where as in the government wide it is shown as a reduction of principal.	6,501
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Property tax revenues received prior to the year for which they are being levied are reported as deferred revenue in the governmental funds. They are, however recorded as revenues in the statement of activities. Deferred property tax revenues increased this year.	(7)
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Change in net assets of governmental activities	<u>\$ (20,110)</u>
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The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues</u>				
Taxes	\$ 120,800	\$ 120,800	137,987	17,187
Licenses and permits	9,500	18,500	17,917	(583)
Intergovernmental	49,400	83,100	82,474	(626)
Charges for services	1,500	1,500	1,234	(266)
Fines and forfeitures	23,000	23,000	21,144	(1,856)
Interest	3,000	3,000	5,925	2,925
Miscellaneous revenue	6,900	6,900	916	(5,984)
Impact fees	5,000	5,000	-	(5,000)
Total revenues	219,100	261,800	267,597	5,797
<u>Expenditures</u>				
Current				
General government	66,469	67,169	73,306	(6,137)
Public safety	114,304	131,804	121,079	10,725
Highways and public works	35,104	35,104	34,468	636
Parks and recreation	12,676	11,476	11,463	13
Debt service				
Principle payment	6,850	6,850	6,850	-
Capital outlay	7,000	7,000	10,497	(3,497)
Total expenditures	242,403	259,403	257,663	1,740
Excess revenues over (under)				
expenditures	(23,303)	2,397	9,934	7,537
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	-	(1,208)	(1,208)
Net change in fund balances	(23,303)	2,397	8,726	6,329
Fund balances - beginning of year	163,160	163,160	163,160	-
Fund balances - end of year	139,857	165,557	171,886	6,329

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Net Assets
Proprietary Funds
June 30, 2006

	<u>Business-Type Activities - Enterprise</u>		
	<u>Water Utility</u>	<u>Solid Waste</u>	<u>Total</u>
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 32,127	10,484	42,611
Accounts receivable - net of allowance of \$ 965	17,947	-	17,947
Total current assets	<u>50,074</u>	<u>10,484</u>	<u>60,558</u>
Noncurrent assets			
Restricted cash and cash equivalents	122,750	-	122,750
Water stock	13,800	-	13,800
Land, equipment, buildings and improvements	1,955,430	158,644	2,114,074
Less: accumulated depreciation	<u>(1,068,149)</u>	<u>(30,336)</u>	<u>(1,098,485)</u>
Total noncurrent assets	<u>1,023,831</u>	<u>128,308</u>	<u>1,152,139</u>
Total assets	<u>\$ 1,073,905</u>	<u>138,792</u>	<u>1,212,697</u>
<u>Liabilities and Net Assets</u>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 560	2,875	3,435
Customer deposits	13,756	-	13,756
Current portion capital leases	-	9,136	9,136
Current portion revenue bonds	5,027	-	5,027
Total current liabilities	<u>19,343</u>	<u>12,011</u>	<u>31,354</u>
Noncurrent liabilities			
Capital leases (net current portion)	-	126,964	126,964
Revenue bonds (net current portion)	77,318	-	77,318
Total noncurrent liabilities	<u>77,318</u>	<u>126,964</u>	<u>204,282</u>
Total liabilities	<u>96,661</u>	<u>138,975</u>	<u>235,636</u>
Net Assets			
Invested in capital assets net of related debt	804,936	(7,792)	797,144
Restricted for capital improvement	103,750	-	103,750
Restricted for debt reserve	19,000	-	19,000
Unrestricted	49,558	7,609	57,167
Total net assets	<u>977,244</u>	<u>(183)</u>	<u>977,061</u>
Total liabilities and net assets	<u>\$ 1,073,905</u>	<u>138,792</u>	<u>1,212,697</u>

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds		
	Water Utility	Solid Waste	Total
<u>Operating Revenues</u>			
Charges for services	\$ 101,958	38,465	140,423
Grants	21,700	-	21,700
Total operating revenues	123,658	38,465	162,123
<u>Operating Expenses</u>			
Salaries and wages	20,100	5,832	25,932
Employee benefits	1,288	396	1,684
Maintenance and supplies	57,100	16,867	73,967
Depreciation	47,526	11,202	58,728
Total operating expenses	126,014	34,297	160,311
Operating income	(2,356)	4,168	1,812
<u>Nonoperating Revenues (Expenses)</u>			
Interest revenue	7,119	-	7,119
Interest expense and fiscal charges	(4,037)	(5,350)	(9,387)
Total nonoperating revenues (expenses)	3,082	(5,350)	(2,268)
Change in net assets	726	(1,182)	(456)
Total net assets - beginning	976,518	999	977,517
Total net assets - ending	\$ 977,244	(183)	977,061

The notes to the financial statements are an integral part of this statement.

Town of Stockton
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Water Utility	Solid Waste	Total
<u>Cash flows from operating activities</u>			
Receipts from customers	\$ 115,170	38,465	153,635
Payments to suppliers	(57,085)	(15,584)	(72,669)
Payments to employees	(21,388)	(6,228)	(27,616)
Net cash provided by (used in) operating activities	<u>36,697</u>	<u>16,653</u>	<u>53,350</u>
<u>Cash flows from capital and related financing activities</u>			
Purchase of capital assets	(40,310)	-	(40,310)
Principal paid on capital debt	(4,995)	(8,792)	(13,787)
Interest paid on capital debt	(4,037)	(5,350)	(9,387)
Net cash provided by (used in) capital and related financing activities	<u>(49,342)</u>	<u>(14,142)</u>	<u>(63,484)</u>
<u>Cash flows from investing activities</u>			
Interest and dividends received	7,119	-	7,119
Net cash provided by (used in) investing activities	<u>7,119</u>	<u>-</u>	<u>7,119</u>
Net increase (decrease) in cash and cash equivalents	(5,526)	2,511	(3,015)
Cash and cash equivalents - beginning	160,403	7,973	168,376
Cash and cash equivalents (deficit) - end	<u>\$ 154,877</u>	<u>10,484</u>	<u>165,361</u>
Shown on the balance sheet as			
Cash and cash equivalents	\$ 32,127	10,484	42,611
Restricted cash and cash equivalents	122,750	-	122,750
	<u>\$ 154,877</u>	<u>10,484</u>	<u>165,361</u>
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>			
Operating income	\$ (2,356)	4,168	1,812
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	47,526	11,202	58,728
(Increase)/decrease in accounts receivable	(8,488)	-	(8,488)
Increase/(decrease) in accounts payable	15	1,283	1,298
Total adjustments	<u>39,053</u>	<u>12,485</u>	<u>51,538</u>
Net cash provided (used) by operating activities	<u>\$ 36,697</u>	<u>16,653</u>	<u>53,350</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Town of Stockton
Notes to Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Town is a municipal corporation governed by an elected mayor and four member council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with data of the primary government. However, there are no component units required to be included in the Town's financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 1 - Summary of Significant Accounting Policies - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* is used to account for the revenues and expenditures associates with the drug task force.

The Town reports the following major proprietary funds:

The *water fund* accounts for the operations of the Town's water system.

The *solid waste fund* accounts for the operations of the Town's garbage collection.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Note 1 - Summary of Significant Accounting Policies - Continued

Amounts reported as program revenues include 1) charges to customers or applicants for goods, service, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the public utility enterprise funds are charges to customers for sales and services. The funds also recognize as operating revenue the portion of water connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

1. Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the Town, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 1 - Summary of Significant Accounting Policies - Continued

All trade, property, sales, and franchise tax receivables are shown net of an allowance for uncollectibles.

Property taxes are collected by the County Treasurer and remitted to the Town shortly after collection. Property taxes are levied based on property values as of January 1 of each year, with liens posted as of the same date. Taxes are due and payable on November 1 and delinquent after 12 o'clock noon on November 30 of each year.

Sales taxes are collected by the State Tax Commission and remitted to the Town monthly.

3. Restricted cash and cash equivalents

Certain resources of the Town's water enterprise funds are set aside for the repayment of revenue bonds, and for repairs of the system as required by applicable bond covenants.

4. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset of materially extend assets lives are not capitalized.

Property, plant, equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	15
System infrastructure	30 - 40
Vehicles	5
Equipment	7 - 15

Note 1 - Summary of Significant Accounting Policies - Continued

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

6. Fund equity/Net assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

Budgets are prepared and adopted, in accordance with State law, by the Town of Stockton Council on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, and capital projects funds. Tentative budgets must be adopted on or before June 22nd for the following fiscal year, beginning July 1. Final adoption of the budget must be no later than August 17th. Budgets may be increased by resolution of the Town Council at any time during the year. A public hearing must be held regarding any proposed increase in a fund's appropriations. The budget is adopted by fund, function and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Council. The legal level of budgetary control is the function level. Appropriations lapse at June 30.

Utah State law states that expenditures being made in excess of those budgeted, is an illegally created debt in violation of the Utah Constitution. As such the total illegally created deficit should be budgeted to be made up in the following fiscal year. Deficits arising from emergencies are not illegal and may be retired over 5 years. The law also allows for the accumulation of a fund balance in the general fund in an amount equal to 75% of the total estimated revenue of the General Fund. In the event that the fund balance, at the end of the fiscal year, is in excess of that allowed, the Town has one year, to determine an appropriate use and then the excess must be included as an available resource in the General Fund budget.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 3 - Detailed Notes on all Funds

Deposits and investments

The Town maintains cash accounts with local institutions and investment pools with the Utah Public Treasurers' Investment Fund, which is available for use by all funds.

Utah State law requires that Town funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the Town and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2006, the Town had the following deposits and investments:

	<u>Fair Value</u>
Cash on deposit	\$ 44,689
State Treasurer's investment pool	<u>258,491</u>
	<u>\$ 303,180</u>

Interest rate risk. The Town manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

Credit risk. As of June 30, 2006, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit risk. The Town's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, none of the \$44,689 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 3 - Detailed Notes on all Funds - continued

Custodial credit risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. The Town's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2006, are as follows:

Cash on deposit	\$ 38,518
Utah State Treasurer's	
Investment pool account	<u>258,491</u>
	<u><u>\$ 297,009</u></u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	\$ 71,460
Restricted assets	
Cash and cash equivalents	<u>225,549</u>
	<u><u>\$ 297,009</u></u>

Receivables

Receivables as of year end for the governmental type and business type funds are as follows:

	Govern- mental	Business	Total
Accounts	\$ -	17,947	17,947
Property tax	3,784	-	3,784
Sales tax	10,584	-	10,584
Franchise tax	473	-	473
B & C road revenue	7,018	-	7,018
Deferred property tax revenue	44,794	-	44,794
Other	4,804	-	4,804
	<u><u>\$ 71,457</u></u>	<u><u>17,947</u></u>	<u><u>89,404</u></u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

<u>Primary Government</u>	Beginning			Ending
Governmental activities	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 106,495	-	-	106,495
Total capital assets not being depreciated	106,495	-	-	106,495
Capital assets being depreciated:				
Buildings	271,868	-	-	271,868
Improvements	157,383	-	-	157,383
Machinery and equipment	258,353	27,878	(28,831)	257,400
Total capital assets being depreciated	687,604	27,878	(28,831)	686,651
Less accumulated depreciation for:				
Buildings	68,262	9,517	-	77,779
Improvements	66,903	10,272	-	77,175
Machinery and equipment	160,367	24,549	(8,753)	176,163
Total accumulated depreciation	295,532	44,338	(8,753)	331,117
Total capital assets, being depreciated, net	392,072	(16,460)	(20,078)	355,534
Governmental activities capital assets, net	\$ 498,567	(16,460)	(20,078)	462,029

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Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 3 - Detailed Notes on all Funds - continued

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 107,838	-	-	107,838
Construction in process	-	39,000	-	39,000
Total capital assets not being depreciated	107,838	39,000	-	146,838
Capital assets being depreciated:				
Buildings	40,632	-	-	40,632
Distribution mains and reservoir	1,695,638	-	-	1,695,638
Machinery and equipment	229,656	1,310	-	230,966
Total capital assets being depreciated	1,965,926	1,310	-	1,967,236
Less accumulated depreciation for:				
Buildings	28,615	2,015	-	30,630
Distribution mains and reservoir	936,180	40,735	-	976,915
Machinery and equipment	74,962	15,978	-	90,940
Total accumulated depreciation	1,039,757	58,728	-	1,098,485
Total capital assets, being depreciated, net	926,169	(57,418)	-	868,751
Business-type activities capital assets, net	\$ 1,034,007	(18,418)	-	1,015,589

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 21,513
Public safety	22,713
Highways and public improvements	-
Parks and recreation	112
Total depreciation expense -governmental activities	44,338

Business-type activities:

Water utility	47,526
Solid waste	11,202
Total depreciation expense - business-type activates	58,728

Total depreciation expense \$ 103,066

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 3 - Detailed Notes on all Funds - continued

Interfund receivables, payables, and transfers

Individual interfund transfers at June 30, 2006 are as follows:

<u>Transfer Out</u>	<u>Transfer in</u> <u>Special</u> <u>revenue</u> <u>fund</u>
General fund	\$ 1,208
	<u>\$ 1,208</u>

Capital leases

The Town has entered into lease agreements as lessee for financing the acquisition of a police vehicle in governmental activities. The Town has also financed a garbage truck, and garbage cans in the solid waste fund. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental</u>	<u>Solid Waste</u>
Vehicles	\$ 22,100	-
Garbage truck	-	140,000
Garbage cans	-	18,644
	<u>\$ 22,100</u>	<u>158,644</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006 were as follows:

<u>Year ending June 30:</u>	<u>Governmental</u>	<u>Solid Waste</u>
2007	4,062	13,169
2008	-	13,268
2009	-	13,368
2010	-	13,469
2011	-	13,569
2012-2016	-	69,253
2017-2021	-	28,173
	<u>4,062</u>	<u>164,269</u>
Less: amounts representing interest	(132)	(28,169)
Present value of minimum lease payments	<u>\$ 3,930</u>	<u>136,100</u>

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 3 - Detailed Notes on all Funds - continued

Short-term note payable

The Town received a grant from the State of Utah to do a feasibility study for a sewer system for the Town. The Town board has subsequently decided not to bond for the installation of a sewer system. The Town is obligated to repay the amount of the grant in the amount of \$238,210. The Town is trying to set up a payment schedule as resources may not allow the Town to pay the amount in one payment.

Revenue bonds

The Town issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original debt of the 1980 revenue bonds series A, was \$155,000 with monthly installments of \$755 beginning June 1980, due in 2019. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1980 Series A Water fund	4.75%	<u>\$ 82,345</u>

Revenue bond debt service requirements to maturity are as follows:

<u>For the year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 5,027	4,033
2008	5,284	3,776
2009	5,554	3,506
2010	5,838	3,222
2011	6,137	2,923
2012-2016	35,729	9,571
2017-2021	18,776	1,150
Total	<u>\$ 82,345</u>	<u>28,181</u>

Town of Stockton
Notes to Financial Statements-Continued
June 30, 2006

Note 3 - Detailed Notes on all Funds - continued

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Capital lease payable	\$ 10,431	-	(6,501)	3,930	3,930
Total governmental activities long-term liabilities	\$ 10,431	-	(6,501)	3,930	3,930
Business-type activities					
Bonds payable:					
Water revenue bonds	\$ 87,340	-	(4,995)	82,345	5,027
Total bonds payable	87,340	-	(4,995)	82,345	5,027
Capital lease payable	144,892		(8,792)	136,100	9,136
Total business-type activities long-term liabilities	\$ 232,232	-	(13,787)	218,445	14,163

Note 4 - Other information

Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Transfer of assets

At the end of the 2005 fiscal year, the stewardship for the Tooele County Drug Task Force was transferred to Tooele County. The Town reported this as a special revenue fund in the financial statements and showed a transfer of fund balance in the current year. Fixed assets carried on the Town's books were transferred to the County.

SUPPLEMENTARY INFORMATION

Town of Stockton
Schedule of Impact Fees
June 30, 2006

New developments often require construction of new water and sewer lines, storm drains, parks, roads and schools. The responsibility for these capital improvements falls on the local government. To fund the projects the local government must charge the individual home owners or the developers impact fees. State law requires the local government to prepare a capital facility plan, write impact fee analysis, enact impact fee legislation, and trace the source, expenditure, and budgeted expenditure for each project.

The Town of Stockton has established many impact fees including: water, flood drain, park, public safety and road. The following tables indicate the source of the impact fee, the remaining balance not yet expended by year, and the planned expenditures by amount and specific capital project.

Impact Fee Source - Water				
	Balance		Planned Expenditures	Capital Projects
2001	\$ 23,772	2007	875,000	Water well development
2002	38,216			
2003	29,335			
2004	7,081			
2005	5,346			
2006	-			
	<u>\$ 103,750</u>		<u>875,000</u>	

Impact Fee Source - Flood Drain				
	Balance		Planned Expenditures	Capital Projects
1997	\$ 619	2007		
1998	3,102			
1999	4,545			
2000	2,429			
2001	4,442			
2002	4,289			
2003	2,382			
2004	629			
2005	570			
2006	-			
	<u>\$ 23,007</u>		<u>-</u>	

Town of Stockton
Schedule of Impact Fees
June 30, 2006

<u>Impact Fee Source - Park</u>			
	<u>Balance</u>	<u>Planned Expenditures</u>	<u>Capital Projects</u>
1998	\$ 747	2007	
1999	1,515		
2000	820		
2001	1,480		
2002	1,726		
2003	2,375		
2004	368		
2005	345		
2006	-		
	<u>\$ 9,376</u>	<u>-</u>	

<u>Impact Fee Source - Public Safety</u>			
	<u>Balance</u>	<u>Planned Expenditures</u>	<u>Capital Projects</u>
2002	\$ 5,018	2007	
2003	9,335		
2004	1,806		
2005	540		
2006	-		
	<u>\$ 16,699</u>	<u>-</u>	

<u>Impact Fee Source - Road</u>			
	<u>Balance</u>	<u>Planned Expenditures</u>	<u>Capital Projects</u>
2002	\$ 2,520	2007	
2003	7,804		
2004	1,782		
2005	1,106		
2006	-		
	<u>\$ 13,212</u>	<u>-</u>	

OTHER REPORTS

Ulrich & Associates, PC

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and Members
of the Town Council
Town of Stockton
Stockton, UT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Stockton as of and for the year ended June 30, 2006, which collectively comprise the Town of Stockton's basic financial statements and have issued our report thereon dated January 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Stockton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Stockton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of Utah Association of CPAs | American Institute of CPAs

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We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Town of Stockton in a separate letter dated January 9, 2007.

This report is intended solely for the information and use of the Town Council, management, others within the organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ulrich & Associates, P.C.

January 9, 2007

Ulrich & Associates, PC

Certified Public Accountants

STATE LEGAL COMPLIANCE REPORT

The Honorable Mayor and Members
of the Town Council
Town of Stockton
Stockton, UT

We have audited the general purpose financial statements of the Town of Stockton for the year ended June 30, 2006 and have issued our report thereon dated January 9, 2007. As part of our audit, we have audited compliance with the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The town received the following major State assistance programs from the State of Utah:

Class "C" Road Allotment
Liquor Law Enforcement (State Tax Commission)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Justice Court Compliance
Cash Management	B and C Road Funds
Purchasing Requirements	Other Compliance Requirements
Budgetary Compliance	Uniform Building Code Standards
Property Tax Limitations	Impact Fees and Other Development Fees
Liquor Law Enforcement	

The management of the Town of Stockton, is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings. We considered these instances in forming our opinion on compliance, which is expressed in the following paragraph.

Members of Utah Association of CPAs | American Institute of CPAs

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In our opinion, the Town of Stockton, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Ulrich & Associates, P.C.

January 9, 2007

Town of Stockton

Schedule of Findings State Legal Compliance

1 Cash Management

Every public treasurer must have a fidelity bond on their position, based on the previous year's budgeted gross revenues. Although the Town had a fidelity bond on the Treasurer, it was discovered during field work that it was under the required amount by \$9,953.

Management Response - Management was unaware of the deficiency in the treasurer portion of the bond since the total amount of the bond was for an adequate amount. The bond was changed as soon as it was discovered, to be in compliance with the requirement.

2 Budgetary Compliance

No expenditures should be incurred in excess of approved budget amounts. It was noted that in the general fund, general government expenditures exceeded budgeted amounts by \$6,137 and capital outlay exceeded budgeted amounts by \$3,497.

Management Response - Those employees responsible for the budgets are relatively new. Management will work to develop the proper understanding of the budget process in order to address this problem. We anticipate this will not be an issue in future years.

3 Impact Fees

Each entity that collects impact fee funds must maintain a record of the fees collected, who they were collected from, and expenditures that relate to the income. Additionally, expenditures must be for the items identified on the capital facilities plan. If fees collected are not expended within a six year time frame, the fees should be refunded to the individuals they were collected from. Although no impact fees were collected in 2006, it was noted that past fees collected for flood drain impact and park impact were not spent within the six year time frame. It was also noted that no record can be found to determine who the fees were collected from.

Management Response - The individual that was responsible for tracking impact fees is no longer at the Town office. Current employees are working to find the records to identify the source of the impact fees collected.

4 General Compliance

Per State law, deficits in any fund are illegal. At June 30, 2006 the solid waste enterprise fund had a deficit net assets of \$183.

Management Response - The Town has increased rates in the waste enterprise fund for fiscal year 2007 to help correct this problem. Management will also monitor expenditures and fund balance during the 2007 FY.